

REPORT OF THE COMMISSION STAFF
THE PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA

DOCKET NO. 2002-239-W/S
HARBOR ISLAND UTILITIES, INC.

REPORT OF THE AUDIT DEPARTMENT

THE PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA

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SYNOPSIS

<u>Amount Requested</u>	<u>Water*</u>	<u>Sewer*</u>	<u>Combined*</u>
	\$	\$	\$
Per Company	52,181	21,220	73,401
Per Staff	34,801	22,302	57,103

<u>Operating Margin</u>	<u>Water</u>	<u>Sewer</u>	<u>Combined</u>
Per Books	(44.36)%	1.59%	(24.46)%
As Adjusted	6.35%	12.81%	8.96%
After Proposed Increase	18.38%	22.78%	20.15%

*These figures were computed by the Utilities Department.

REPORT OF THE AUDIT DEPARTMENT
THE PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA
DOCKET NO. 2002-239-W/S
HARBOR ISLAND UTILITIES, INC.

ANALYSIS

The Audit Department Staff has made a review of the application of Harbor Island Utilities, Inc. (hereinafter referred to as the Company) along with certain of its accounting records, relative to the Company's application to increase certain of its rates and charges under Docket No. 2002-239-W/S.

The Company is a water and wastewater utility operating in the State of South Carolina. The Company furnishes both water and sewer service to residential and commercial customers on Harbor Island, in the County of Beaufort. The Company's principal place of business is located at Sam's Point Road, Lady's Island, South Carolina, 29902.

The following is a summary of the Company's most recent rate request before this Commission:

Date of Order	Effective Date	Docket Number	Order Number	Amount Requested	Amount Granted	Operating Margin
08/01/98	08/01/98	97-262-W/S	98-575	\$79,896	\$35,380	11.45%

In its present application, the Company utilizes an October 31, 2001 test year and the Company requests additional water and sewer revenues totaling \$73,401.

Combined Operating Margin computed by the Staff after the adjustments for the proposed increase is 20.15%.

**EXHIBIT A-W: OPERATING EXPERIENCE AND OPERATING MARGIN –
WATER OPERATIONS**

Detailed in this Staff exhibit are the Company's Operating Experience and Operating Margin for Water Operations for the test year ended October 31, 2001.

**EXHIBIT A-S: OPERATING EXPERIENCE AND OPERATING MARGIN –
SEWER OPERATIONS**

Detailed in this Staff exhibit are the Company's Operating Experience and Operating Margin for Sewer Operations for the test year ended October 31, 2001.

**EXHIBIT A-1: EXPLANATION OF ACCOUNTING AND PRO FORMA
ADJUSTMENTS**

Detailed in this Staff exhibit are the details of each accounting and pro forma adjustment necessary to normalize the Company's water and sewer operations and to reflect the proposed increase. For comparative purposes, Company and Staff adjustments are both presented in this exhibit. The exhibit also includes the amounts allocated to water and sewer operations.

EXHIBIT A-2: CUSTOMER GROWTH COMPUTATION

The Staff's computation of the Company's customer growth factor during the test year is shown in this exhibit. The staff calculated a growth factor of 1.0% for water operations since the number of water customers increased from 382 to 390 during the test year. The number of sewer customers served during the test year remained constant at

354; therefore, the sewer operations had zero (0) growth. Combined customer growth is calculated by adding water customer growth to sewer customer growth.

EXHIBIT A-3: RECONCILIATION OF TOTAL INCOME FOR RETURN

This exhibit details the differences between the Company's filing and the Staff's presentation of financial data leading to total income for return.

EXHIBIT A-4: INCOME STATEMENT

The Company's income statement figures for the test year ending October 31, 2001 are reflected in this exhibit. Staff verified all balances contained in this statement to the Company's books and records.

EXHIBIT A-5: BALANCE SHEET

Shown in this exhibit is the balance sheet for the Company as of the end of the test year, October 31, 2001. Staff verified the balances contained in this statement to the Company's books and records.

Harbor Island Utilities, Inc.
Operating Experience and Operating Margin - Combined
Test Year Ended October 31, 2001

Combined Operations Description	(1) Per Books \$	(2) Acctg. & Pro Forma Adjust. \$	(3) Adj. No.	(4) As Adjusted \$	(5) Effect of Proposed Increase \$	(6) Adj. No.	(7) After Proposed Increase \$
<u>Operating Revenues</u>							
Water	138,768	24,375	(1)	163,143	34,801	(13)	197,944
Sewer	108,025	2,423	(1)	110,448	22,302	(13)	132,750
Safe Water Fee (DHEC)	1,614	(1,614)	(2)	0	0		0
Interest Earned	70	(70)	(3)	0	0		0
Late Charges	517	0	(4)	517	0		517
Other Income	5,092	(5,092)	(5)	0	0		0
Refunds	(135)	135	(6)	0	0		0
<u>Total Operating Revenues</u>	<u>253,951</u>	<u>20,157</u>		<u>274,108</u>	<u>57,103</u>		<u>331,211</u>
<u>Operating Expenses</u>							
Administration	83,856	(32,817)	(7)	51,039	0		51,039
Water and Sewer Operation and Maintenance	140,716	(30,730)	(8)	109,986	0		109,986
Depreciation Expense	4,374	(2,675)	(9)	1,699	0		1,699
Water Purchase	77,685	(6,017)	(10)	71,668	0	(14)	71,668
Debt Service P&I	0	0	(11)	0	0		0
Taxes Other Than Income	9,440	0		9,440	272	(15)	9,712
Income Taxes - State and Federal	0	5,828	(12)	5,828	14,913	(16)	20,741
<u>Total Operating Expenses</u>	<u>316,071</u>	<u>(66,411)</u>		<u>249,660</u>	<u>15,185</u>		<u>264,845</u>
Net Operating Income (Loss)	(62,120)	86,568		24,448	41,918		66,366
Customer Growth (See Exhibit A-2)	0	103		103	258		361
<u>Net Income (Loss) For Return</u>	<u>(62,120)</u>	<u>86,671</u>		<u>24,551</u>	<u>42,176</u>		<u>66,727</u>
<u>Operating Margin</u>	<u>(24.46)%</u>			<u>8.96%</u>			<u>20.15%</u>

Harbor Island Utilities, Inc.
Operating Experience and Operating Margin - Water
Test Year Ended October 31, 2001

Water Operations Description	(1) Per Books	(2) Acctg. & Pro Forma Adjust.	(3) Adj. No.	As Adjusted	(4) Effect of Proposed Increase	(5) After Adj. No.	Proposed Increase
	\$	\$		\$	\$		\$
<u>Operating Revenues</u>							
Water	138,768	24,375	(1)	163,143	34,801	(13)	197,944
Safe Water Fee (DHEC)	1,614	(1,614)	(2)	0	0		0
Interest Earned	46	(46)	(3)	0	0		0
Late Charges	336	0	(4)	336	0		336
Other Income	3,310	(3,310)	(5)	0	0		0
Refunds	(88)	88	(6)	0	0		0
<u>Total Operating Revenues</u>	<u>143,986</u>	<u>19,493</u>		<u>163,479</u>	<u>34,801</u>		<u>198,280</u>
<u>Operating Expenses</u>							
Administration	54,506	(21,897)	(7)	32,609	0		32,609
Water Operation and Maintenance	67,122	(27,718)	(8)	39,404	0		39,404
Depreciation Expense	2,402	(1,471)	(9)	931	0		931
Water Purchase	77,685	(6,017)	(10)	71,668	0	(14)	71,668
Debt Service P&I	0	0	(11)	0	0		0
Taxes Other Than Income	6,136	0		6,136	166	(15)	6,302
Income Taxes - State and Federal	0	2,451	(12)	2,451	8,827	(16)	11,278
<u>Total Operating Expenses</u>	<u>207,851</u>	<u>(54,652)</u>		<u>153,199</u>	<u>8993</u>		<u>162,192</u>
Net Operating Income (Loss)	(63,865)	74,145		10,280	25,808		36,088
Customer Growth (See Exhibit A-2)	0	103		103	258		361
<u>Net Income (Loss) For Return</u>	<u>(63,865)</u>	<u>74,248</u>		<u>10,383</u>	<u>26,066</u>		<u>36,449</u>
 <u>Operating Margin</u>	 <u>(44.36)%</u>			 <u>6.35%</u>			 <u>18.38%</u>

Harbor Island Utilities, Inc.
Operating Experience and Operating Margin - Sewer
Test Year Ended October 31, 2001

Sewer Operations Description	(1) Per Books	(2) Acctg. & Pro Forma Adjust.	(3) Adj. No.	(4) As Adjusted	(5) Effect of Proposed Increase	(6) Adj. No.	(7) After Proposed Increase
	\$	\$		\$	\$		\$
<u>Operating Revenues</u>							
Sewer Revenues	108,025	2,423	(1)	110,448	22,302	(13)	132,750
Interest Earned	24	(24)	(3)	0	0		0
Late Charges	181	0	(4)	181	0		181
Other Income	1,782	(1,782)	(5)	0	0		0
Refunds	(47)	47	(6)	0	0		0
<u>Total Operating Revenues</u>	<u>109,965</u>	<u>664</u>		<u>110,629</u>	<u>22,302</u>		<u>132,931</u>
<u>Operating Expenses</u>							
Administration	29,350	(10,920)	(7)	18,430	0		18,430
Sewer Operation and Maintenance	73,594	(3,012)	(8)	70,582	0		70,582
Depreciation Expense	1,972	(1,204)	(9)	768	0		768
Water Purchase	0	0		0	0	(14)	0
Debt Service P&I	0	0	(11)	0	0		0
Taxes Other Than Income	3,304	0		3,304	106	(15)	3,410
Income Taxes - State and Federal	0	3,377	(12)	3,377	6,086	(16)	9,463
<u>Total Operating Expenses</u>	<u>108,220</u>	<u>(11,759)</u>		<u>96,461</u>	<u>6,192</u>		<u>102,653</u>
Net Operating Income (Loss)	1,745	12,423		14,168	16,110		30,278
Customer Growth (See Exhibit A-2)	0	0		0	0		0
<u>Net Income (Loss) For Return</u>	<u>1,745</u>	<u>12,423</u>		<u>14,168</u>	<u>16,110</u>		<u>30,278</u>
 <u>Operating Margin</u>	 <u>1.59%</u>			 <u>12.81%</u>			 <u>22.78%</u>

Harbor Island Utilities, Inc.
Explanation of Accounting and Pro Forma Adjustments
Test Year Ended October 31, 2001

Description	(1) Water/Sewer Revenues	(2) DHEC Fees	(3) Interest Earned	(4) Late Charges	(5) Other Income	(6) Refunds	(7) Adm. Expense	(8) Oper. Expense	(9) Deprec. Expense	(10) Water Purchase	(11) Debt Service	(12) Income Taxes
(1) Both the Staff and the Company propose to annualize revenues based on a bill frequency analysis. Staff calculated an adjustment for water revenue in the amount of \$24,375 while the Company calculated an adjustment for water revenue in the amount of \$6,995. (U)	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Per Staff-Combined	26,798											
Per Staff-Water	24,375											
Per Staff-Sewer	2,423											
Per Company-Combined	9,418											
Per Company-Water	6,995											
Per Company-Sewer	2,423											
(2) The Staff and the Company propose to remove revenues associated with DHEC required recoupment fees. Staff also proposes to remove related DHEC fees from expenses. These fees are required to be passed on to customers as a separate line item on the utility bill. Such fees come under the jurisdiction of DHEC. (A & U)		(1,614)					(1,614)					
Per Staff-Combined		(1,614)					(1,614)					
Per Staff-Water		0					0					
Per Staff-Sewer												
Per Company-Combined		(1,614)					0					
Per Company-Water		(1,049)					0					
Per Company-Sewer		(565)					0					
(3) The Staff and the Company propose to reduce revenues for the amount of interest earned during the test year. Interest income is a non-operating item. (U)			(70)									
Per Staff-Combined			(46)									
Per Staff-Water			(24)									
Per Staff-Sewer												
Per Company-Combined			(70)									
Per Company-Water			(46)									
Per Company-Sewer			(24)									
(4) The Company proposes to reduce revenues for the amount of late charges earned. The Staff does not propose to make this adjustment since late fees should be included in the calculation for operating margin. Late fees are approved by this Commission. (U)												
Per Staff-Combined												0
Per Staff-Water												0
Per Staff-Sewer												0
Per Company-Combined												(517)
Per Company-Water												(336)
Per Company-Sewer												(181)

Harbor Island Utilities, Inc.
Explanation of Accounting and Pro Forma Adjustments
Test Year Ended October 31, 2001

Audit Exhibit A-1
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Description	(1) Water/Sewer Revenues	(2) DHEC Fees	(3) Interest Earned	(4) Late Charges	(5) Other Income	(6) Refunds	(7) Adm. Expense	(8) Oper. Expense	(9) Deprec. Expense	(10) Water Purchase	(11) Debt Service	(12) Income Taxes
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
(5) The Staff and the Company propose to remove tap fees from revenue. The Staff also proposes to remove an equal amount from expenses since the cost of the tap is equal to the tap fee. (A & U)												
Per Staff-Combined					(5,092)			(5,092)				
Per Staff-Water					(3,310)			(3,310)				
Per Staff-Sewer					(1,782)			(1,782)				
Per Company-Combined					(5,092)			0				
Per Company-Water					(3,310)			0				
Per Company-Sewer					(1,782)			0				
(6) The Staff proposes to remove the amount of interest deducted by the Company as an expense. Such interest expense was paid for the purchase of treasury stock. Staff does not recommend that such cost be included for ratemaking purposes. (A)												
Per Staff-Combined							(28,447)					
Per Staff-Water							(18,491)					
Per Staff-Sewer							(9,956)					
Per Company-Combined							0					
Per Company-Water							0					
Per Company-Sewer							0					
(7) The Staff and the Company propose to remove a donation from expenses. Donations are considered to be non-allowable for ratemaking purposes. (A)												
Per Staff-Combined							(150)					
Per Staff-Water							(98)					
Per Staff-Sewer							(52)					
Per Company-Combined							(150)					
Per Company-Water							(98)					
Per Company-Sewer							(52)					
(8) The Company proposes to amortize estimated rate case expenses totaling \$3,000 over three years. The Staff did not include this expense because it was an estimate. (A)												
Per Staff-Combined							0					
Per Staff-Water							0					
Per Staff-Sewer												
Per Company-Combined							1,000					
Per Company-Water							650					
Per Company-Sewer							350					

Harbor Island Utilities, Inc.
Explanation of Accounting and Pro Forma Adjustments
Test Year Ended October 31, 2001

Description	(1) Water/Sewer Revenues	(2) DHEC Fees	(3) Interest Earned	(4) Late Charges	(5) Other Income	(6) Refunds	(7) Adm. Expense	(8) Oper. Expense	(9) Deprec. Expense	(10) Water Purchase	(11) Debt Service	(12) Income Taxes
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
(9) The Staff and the Company propose to remove excess operating expenses for line location services. Per the operating services contract, approved labor charges for line location services were \$20 per line. The Company expensed actual labor hours for the test year. (A)												
Per Staff-Water							(960)					
Per Staff-Sewer							(624)					
							(336)					
Per Company-Combined							(960)					
Per Company-Water							(624)					
Per Company-Sewer							(336)					
(10) The Staff and the Company propose to reduce expenses for management fees which were booked in excess of the allowable fees per the management contract. (A)												
Per Staff-Combined							(3,500)					
Per Staff-Water							(2,275)					
Per Staff-Sewer							(1,225)					
Per Company-Combined							(3,500)					
Per Company-Water							(2,275)					
Per Company-Sewer							(1,225)					
(11) The Staff and the Company propose to annualize postage expense. Per the service agreement, the Company is required to pay postage for mailing of monthly bills. During the test year, the Company was not billed for such postage by the Management Company. (A)												
Per Staff-Combined							1,591					
Per Staff-Water							1,034					
Per Staff-Sewer							557					
Per Company-Combined							1,591					
Per Company-Water							1,034					
Per Company-Sewer							557					
(12) The Staff proposes to annualize depreciation expense using year end plant in service. Plant in Service was reduced by Contributed Capital and Contributions in Aid of Construction (tap fees) before depreciation expense was computed. The Company did not propose an adjustment to annualize depreciation expense. The Company does propose to allocate depreciation expense to the sewer system. (A & U)												
Per Staff-Combined									(2,675)			
Per Staff-Water									(1,471)			
Per Staff-Sewer									(1,204)			
Per Company-Combined									0			
Per Company-Water									(1,972)			
Per Company-Sewer									1,972			

Harbor Island Utilities, Inc.
Explanation of Accounting and Pro Forma Adjustments
Test Year Ended October 31, 2001

Description	(1) Water/Sewer Revenues	(2) DHEC Fees	(3) Interest Earned	(4) Late Charges	(5) Other Income	(6) Refunds	(7) Adm. Expense	(8) Oper. Expense	(9) Deprec. Expense	(10) Water Purchase	(11) Debt Service	(12) Income Taxes
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
(13) The Staff and the Company propose to annualize telephone expenses. Test year expenses included telephone service for nine months instead of twelve months. (A)												
Per Staff-Combined							263					
Per Staff-Water							171					
Per Staff-Sewer							92					
Per Company-Combined							263					
Per Company-Water							171					
Per Company-Sewer							92					
(14) The Staff and the Company propose to reduce expenses for labor charges which should have been covered by the monthly service charge per the Service Agreement. (A)								(28,182)				
Per Staff-Combined								(16,182)				
Per Staff-Water								(12,000)				
Per Staff-Sewer												
Per Company-Combined								(28,182)				
Per Company-Water								(16,182)				
Per Company-Sewer								(12,000)				
(15) The Staff and the Company propose to reduce purchased water expense to reflect water lost in excess of 10%. (U)										(6,017)		
Per Staff-Combined										(6,017)		
Per Staff-Water												
Per Staff-Sewer										0		
Per Company-Combined										(6,017)		
Per Company-Water										(6,017)		
Per Company-Sewer										0		
(16) The Company proposes to expense the estimated debt service cost to relocate a pipeline across a new bridge which may be built. The Staff did not include this estimate. The cost of debt should be based on embedded cost rates, capital structure and rate base. (A)												
Per Staff-Combined												0
Per Staff-Water												0
Per Staff-Sewer												0
Per Company-Combined												7,445
Per Company-Water												4,839
Per Company-Sewer												2,606

Harbor Island Utilities, Inc.
Explanation of Accounting and Pro Forma Adjustments
Test Year Ended October 31, 2001

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Description	(1) Water/Sewer Revenues	(2) DHEC Fees	(3) Interest Earned	(4) Late Charges	(5) Other Income	(6) Refunds	(7) Adm. Expense	(8) Oper. Expense	(9) Deprec. Expense	(10) Water Purchase	(11) Debt Service	(12) Income Taxes
(17) The Staff and the Company propose to annualize operating services per the contract agreement with the Beaufort Group, LLC. (A)	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Per Staff-Combined								2,544				
Per Staff-Water								0				
Per Staff-Sewer								2,544				
Per Company-Combined								2,544				
Per Company-Water								0				
Per Company-Sewer								2,544				
(18) The Staff and the Company propose to allocate operator services expense to sewer operations. (A)								0				
Per Staff-Combined								(8,226)				
Per Staff-Water								8,226				
Per Staff-Sewer								0				
Per Company-Combined								(8,226)				
Per Company-Water								8,226				
Per Company-Sewer								0				
(19) The Staff proposes to compute income taxes on an as adjusted basis. (A)												5,828
Per Staff-Combined												2,451
Per Staff-Water												3,377
Per Staff-Sewer												0
Per Company-Combined												0
Per Company-Water												0
Per Company-Sewer												0
(20) The Staff and the Company propose to remove the amount of refunds issued during the test year. Such refunds are possibly non-recurring. (U)												
Per Staff-Combined												
Per Staff-Water												
Per Staff-Sewer												
Per Company-Combined												
Per Company-Water												
Per Company-Sewer												
Total Accounting and Pro Forma Adjustments	26,798	(1,614)	(70)	0	(5,092)	135	(32,817)	(30,730)	(2,676)	(6,017)	0	5,828
Per Staff - Combined	24,375	(1,614)	(46)	0	(3,310)	88	(21,897)	(27,718)	(1,471)	(6,017)	0	2,451
Per Staff - Water	2,423	0	(24)	0	(1,782)	47	(10,920)	(3,012)	(1,204)	0	0	3,377
Per Staff - Sewer	9,418	(1,614)	(70)	(517)	(5,092)	135	(1,756)	(25,638)	0	(6,017)	7,445	0
Per Company - Combined	6,995	(1,049)	(46)	(336)	(3,310)	88	(1,142)	(24,408)	(1,972)	(6,017)	4,839	0
Per Company - Water	2,423	(566)	(24)	(181)	(1,782)	47	(614)	(1,230)	1,972	0	2,606	0
Per Company - Sewer												

(A) Audit Department has primary responsibility for adjustment.
(U) Utilities Department has primary responsibility for adjustment.

Harbor Island Utilities, Inc.
Explanation of Accounting and Pro Forma Adjustments
Test Year Ended October 31, 2001

Proposed Increase Description	(13) Water/Sewer Revenues \$	(14) Purchased Water \$	(15) Taxes Other Than Income Taxes \$	(16) Income Taxes \$
(21) The Staff and the Company propose to include the effects of the proposed increase on monthly service fees. (U)				
Per Staff - Combined	57,103			
Per Staff - Water	34,801			
Per Staff - Sewer	22,302			
Per Company - Combined	73,401			
Per Company - Water	52,181			
Per Company - Sewer	21,220			
(22) The Staff proposes to include the effect of the proposed increase on gross receipts taxes. The current gross receipts tax rate was used by Staff to calculate this expense adjustment. The Company did not propose an adjustment for these taxes. (A)				
Per Staff - Combined			272	
Per Staff - Water			166	
Per Staff - Sewer			106	
Per Company - Combined			0	
Per Company - Water			0	
Per Company - Sewer			0	
(23) The Staff proposes to include the effect of the proposed increase on income taxes. The Company did not propose such adjustment for income taxes. (A)				
Per Staff - Combined				14,913
Per Staff - Water				8,827
Per Staff - Sewer				6,086
Per Company - Combined				0
Per Company - Water				0
Per Company - Sewer				0

Harbor Island Utilities, Inc.
Explanation of Accounting and Pro Forma Adjustments
Test Year Ended October 31, 2001

Proposed Increase Description	(13) Water/Sewer Revenues	(14) Purchased Water	(15) Taxes Other Than Income	(16) Income Taxes
	\$	\$	\$	\$
(24) The Company proposes to adjust purchased water expense to reflect customer growth. Staff does not propose to make such an adjustment. The Staff computed growth in both revenue and expenses by applying a growth factor to net operating income. The customer growth adjustment is shown in Exhibit A-2. (A)				
Per Staff - Combined		0		
Per Staff - Water		0		
Per Staff - Sewer		0		
Per Company - Combined		717		
Per Company - Water		717		
Per Company - Sewer		0		
<hr/>				
Total Accounting and Pro Forma Adjustments - Proposed Increase -				
Per Staff - Combined	57,103	0	272	14,913
Per Staff - Water	34,801	0	166	8,827
Per Staff - Sewer	22,302	0	106	6,086
Per Company - Combined	73,401	717	0	0
Per Company - Water	52,181	717	0	0
Per Company - Sewer	21,220	0	0	0

(A) Audit Department has primary responsibility for adjustment.
(U) Utilities Department has primary responsibility for adjustment.

Harbor Island Utilities, Inc.
Computation of Customer Growth
Test Year Ended October 31, 2001

	(1) Growth Factor <u>%</u>	(2) Net Operating Income <u>\$</u>	(3) Customer Growth <u>\$</u>
<u>COMBINED OPERATIONS</u>			
Per Books	Note 1	(62,120)	0
As Adjusted	Note 1	24,448	103
After Increase	Note 1	66,366	361
<u>WATER OPERATIONS</u>			
Per Books	0.01	(63,865)	0 *
As Adjusted	0.01	10,280	103
After Increase	0.01	36,088	361
<u>SEWER OPERATIONS</u>			
Per Books	0	1,745	0
As Adjusted	0	14,168	0
Total After Increase	0	30,278	0

Computation of Growth Factor Formula:
$$\frac{\text{Year End Customers} - \text{Average Customers}}{\text{Average Customers}}$$

Water Operations

$$\frac{390 - 386}{386}$$

0.01 %

<u>Customers</u>	
Water:	
10/31/00	382
10/31/01	390
Total	<u>772</u>
Average	<u>386</u>

Sewer Operations

$$\frac{354 - 354}{354}$$

0.0 %

Sewer:	
10/31/00	354
10/31/01	354
Total	<u>708</u>
Average	<u>354</u>

Sewer Operations had zero growth.

Note 1: Combined Customer Growth Equals Water Customer Growth Plus Sewer Customer Growth.

*The Staff does not recognize negative growth.

Harbor Island Utilities, Inc.
Reconciliation of Income (Loss) For Return
Test Year Ended October 31, 2001

Description	(1) Per Books	(2) As Adjusted	(3) After Increase
Net Income (Loss) for Return - Per Company's Filing	\$ (62,741)	\$ (34,368)	\$ 39,180
<u>Adjustments Per Staff Exhibit A-1</u>			
Customer Growth - Company	621		
Water/Sewer Revenues - Staff		26,798	57,103
Water/Sewer Revenues - Company		(9,418)	(73,401)
Late Charges - Company		517	
Refunds - Staff		135	
Refunds - Company		0	(135)
Administration Expense - Staff		1,614	
Administration Expense - Staff		28,447	
Administration Expense - Company		1,000	
Other Expense - Staff		5,092	
Depreciation Expense - Staff		2,675	
Water Purchase - Company			717
Debt Service - Company		7,445	
Taxes Other Than Income		0	(272)
Income Taxes - Staff		(5,828)	(14,913)
Customer Growth - Staff		103	258
Customer Growth - Company		340	(728)
Reconciling Items - As Adjusted			58,919
Total Reconciling Items	621	58,920	27,548
Rounding		(1)	(1)
Net Income (Loss) For Return - Per Staff's Exhibit A	(62,120)	24,551	66,727

Harbor Island Utilities, Inc.
Income Statement
Year Ended October 31, 2001

<u>REVENUE</u>	\$
Water	138,768
Sewer	108,025
Safe Drinking Water Fee	1,614
Penalties	517
Other Revenue	5,162
	<hr/>
<u>Total Revenue</u>	254,086
Less Refunds	(135)
Net Revenues	<hr/> 253,951
 Cost of Sales:	
Water Purchase	77,685
 Gross Margin	 176,266
 <u>EXPENSES</u>	
Administration	83,856
Water system Operating and Maintenance	67,121
Sewer System Operating and Maintenance	73,595
Depreciation Expense	4,374
Taxes	9,440
 Total Expenses	 238,386
 Net Income (Loss)	 <hr/> <u>(62,120)</u>

Harbor Island Utilities, Inc.
Balance Sheet
Year Ended October 31, 2001

ASSETS

Plant in Service	450,316	
Less: Accumulated Depreciation	<u>(150,659)</u>	
Total Plant in Service		299,657

CURRENT ASSETS

Cash	10,928	
Accounts Receivable - Customer	6,744	
Other Assets	<u>700</u>	
Total Current Assets		<u>18,372</u>

<u>TOTAL ASSETS</u>		<u>318,029</u>
----------------------------	--	-----------------------

LIABILITIES AND STOCKHOLDERS' EQUITY**LIABILITIES****CURRENT LIABILITIES**

Accounts Payable	60,460	
Accrued Interest	2,202	
Accrued Interest-Shareholder Loan	1,072	
Federal Income Tax Payable	41	
Note Payable	310,916	
Note Payable-Shareholder	26,800	
Customer Deposits	<u>367</u>	
Total Current Liabilities		
Total Current Liabilities		401,858

STOCKHOLDERS' EQUITY

Common Stock	81,000	
Treasury Stock	(516,100)	
Retained Earnings	(31,358)	
Contributed Tap in Fees	<u>382,629</u>	
Total Stockholders' Equity		<u>(83,829)</u>

<u>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</u>		<u>318,029</u>
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**REPORT OF THE
UTILITIES DEPARTMENT
PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA**

HARBOR ISLAND UTILITIES, INC.

DOCKET NO. 2002-239-W/S

UTILITIES DEPARTMENT REPORT

HARBOR ISLAND UTILITIES, INC

DOCKET NO. 2002-239-W/S

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UTILITIES DEPARTMENT EXHIBIT NO. 1

PRESENT AND PROPOSED RATES AND CHARGES

Harbor Island Utilities, Inc. is currently operating under rates and charges approved on August 1, 1998 by Commission Order No. 98-575 in Docket No. 97-262-W/S.

The current water tap fees were approved in Docket No. 97-262-W/S, Order No. 1999-441 dated June 23, 1999. Harbor Island Utilities, Inc. pays \$487.00 per tap to the Fripp Island Public Service District for each water tap collected to fund HIU's share of a newly constructed pump station that was required to boost the water pressure for delivery of water from the Beaufort Jasper Water & Sewer Authority to Harbor and Fripp Island as growth occurs on the islands. The Company is requesting an increase of \$37.00 in the water tap fees due to the increase from \$450.00 to \$487.00 by Fripp Island PSD.

The following pages are the currently APPROVED rates and charges and the PROPOSED rates and charges; also shown are the requested changes.

APPENDIX A

Harbor Island Utilities, Inc.

Docket No. 97-262-W/S

Order No. 98-575

August 1, 1998

1. Residential

3/4" meter	Base	\$11.69/month
	Commodity	\$3.50/1,000 gallons
1" meter	Base	\$13.19/month
	Commodity	\$3.50/1,000 gallons
1 1/2" meter	Base	\$17.99/month
	Commodity	\$3.50/1,000 gallons

2. Commercial Water Service

3/4" meter	Base	\$16.19/month
	Commodity	\$3.50/1,000 gallons
1" meter	Base	\$18.27/month
	Commodity	\$3.50/1,000 gallons
1 1/2" meter	Base	\$24.91/month
	Commodity	\$3.50/1,000 gallons

3. Landscape Irrigation

3/4" meter	Base	\$11.69/month
	Commodity	\$3.50/1,000 gallons
1" meter	Base	\$13.19/month
	Commodity	\$3.50/1,000 gallons
1 1/2" meter	Base	\$17.99/month
	Commodity	\$3.50/1,000 gallons

4. Meters Used for Multiple Residential Units

Minimum monthly charge at \$11.69/unit

Commodity charge of \$3.50/1,000 gallons

NOTE: All rates above are for monthly service. The Utility may bill on a quarterly basis at three times the base rate plus any water used at \$3.50/1,000 gallons.

FIRE HYDRANT USAGE

1. Installation Charge	\$ 50.00*
Advance Payment	\$ 50.00*
Cost per 1,000 gallons	\$ 3.50

RECONNECTION FEES

1. Disconnect/Reconnect at Customer's Request	\$ 50.00
2. Disconnect/Reconnect due to Nonpayment	\$ 50.00

TAP FEES

1. <u>Single Units</u>	
3/4" meter	\$ 650.00**
1" meter	\$1,000.00**
1 1/2" meter	\$1,150.00**
2" meter	\$2,150.00**
2. <u>Master Meter for Multiple Units</u>	
1" – 2"	\$ 650.00**
Greater than 2"	\$ 500.00** per unit plus cost of meter installation

ADVANCE PAYMENT

1. For Water Used During Construction	\$ 100.00*
(paid with tap fees)	

USER FEES – SEWER

1. Residential	\$ 26.00
2. Commercial	\$ 26.00 min. for 10,500 gallons
	\$ 1.40 per 1,000 gal excess usage
	(Sewage flow is determined by using SCDHEC wastewater unit load allocation)

* No change to previously approved rates.

** Rate approved on June 23, 1999.

TAP FEES - SEWER

Residential	\$ 500.00*
Trailer Park	\$ 250.00/pad*
Commercial: Water supplied through 1" – 1 1/2" meter	\$ 850.00*

HARBOR ISLAND UTILITIES, INC.

PROPOSED RATE SCHEDULE

Docket No. 2002-239-W/S

USER FEES – WATER

1. Residential

$\frac{3}{4}$ " meter	Base	\$18.50/month
	Commodity	\$3.60/1,000 gallons
1" meter	Base	\$20.00/month
	Commodity	\$3.60/1,000 gallons
1½" meter	Base	\$25.00/month
	Commodity	\$3.60/1,000 gallons

2. Commercial Water Service

$\frac{3}{4}$ " meter	Base	\$23.00/month
	Commodity	\$3.60/1,000 gallons
1" meter	Base	\$25.00/month
	Commodity	\$3.60/1,000 gallons
1½" meter	Base	\$32.00/month
	Commodity	\$3.60/1,000 gallons

3. Landscape Irrigation

$\frac{3}{4}$ " meter	Base	\$18.50/month
	Commodity	\$3.60/1,000 gallons
1" meter	Base	\$20.00/month
	Commodity	\$3.60/1,000 gallons
1½" meter	Base	\$25.00/month
	Commodity	\$3.60/1,000 gallons

4. Meters Used for Multiple Residential Units

Minimum monthly charge at \$18.50/unit
Commodity charge of \$3.60/1,000 gallons

FIRE HYDRANT USAGE

1. Installation Charge	\$ 50.00*
Advance Payment	\$ 50.00*
Cost per 1,000 gallons	\$ 3.60

RECONNECTION FEES

1. Disconnect/Reconnect at Customer's Request	\$ 50.00
2. Disconnect/Reconnect due to Nonpayment	\$ 50.00

TAP FEES

1. <u>Single Units</u>	
3/4" meter	\$ 687.00
1" meter	\$1,037.00
1½" meter	\$1,187.00
2" meter	\$2,187.00
2. <u>Master Meter for Multiple Units</u>	
1" – 2"	\$ 687.00 per unit served
Greater than 2"	\$ 500.00 per unit plus cost of meter installation

ADVANCE PAYMENT

1. For Water Used During Construction	\$ 100.00*
---------------------------------------	------------

(paid with tap fees)

USER FEES – SEWER

1. Residential	\$ 31.25
2. Commercial	\$ 31.25 min. for 10,500 gallons
	\$ 1.50 per 1,000 gal excess usage
	(Flow is determined by using DHEC wastewater unit load allocation)

* No change to previously approved rates.

TAP FEES – SEWER

Residential	\$ 500.00*
Trailer Park	\$ 325.00/pad*
Commercial: Water supplied through 1" – 1½" meter	\$1,000.00*

* No change to previously approved rates

HARBOR ISLAND UTILITIES, INC.

CURRENT AND PROPOSED RATES SHOWING REQUESTED CHANGES

WATER RATES	RESIDENTIAL AND IRRIGATION			COMMERCIAL		
	current	proposed	increase	current	proposed	increase
monthly base charge						
3/4" meter	\$ 11.69	\$ 18.50	\$ 6.81	\$ 16.19	\$ 23.00	\$ 6.81
1" meter	\$ 13.19	\$ 20.00	\$ 6.81	\$ 18.27	\$ 25.00	\$ 6.73
1 1/2" meter	\$ 17.99	\$ 25.00	\$ 7.01	\$ 24.91	\$ 32.00	\$ 7.09
rate per 1,000 gallons	\$ 3.50	\$ 3.60	\$ 0.10	\$ 3.50	\$ 3.60	\$ 0.10

SEWER RATES	RESIDENTIAL			COMMERCIAL (1)		
fixed rate	\$ 26.00	\$ 31.25	\$ 5.25	\$ 26.00	\$ 31.25	\$ 5.25
per 1,000 gal excess usage (over 10,500 gals)				\$ 1.40	\$ 1.50	\$ 0.10

(1) commercial rate is for 10,500 gallons water usage

<u>TAP FEES-WATER</u>	RESIDENTIAL AND COMMERCIAL		
	current	proposed	increase
single units			
3/4" meter	\$ 650.00	\$ 687.00	\$ 37.00
1" meter	\$ 1,000.00	\$ 1,037.00	\$ 37.00
1 1/2" meter	\$ 1,150.00	\$ 1,187.00	\$ 37.00
2" meter	\$ 2,150.00	\$ 2,187.00	\$ 37.00
master meter for multiple units			
1" - 2"	\$ 650.00	\$ 687.00	\$ 37.00
greater than 2"	\$ 500.00	\$ 500.00	per unit plus cost of meter installation

<u>TAP FEES - SEWER</u>	current	proposed	increase
residential	\$ 500.00	\$ 500.00	\$ -
trailer park per pad	\$ 250.00	\$ 325.00	\$ 75.00
commercial	\$ 850.00	\$ 1,000.00	\$ 150.00

FIRE HYDRANT USAGE	current	proposed	increase
installation charge	\$ 50.00	\$ 50.00	\$ -
advance payment	\$ 50.00	\$ 50.00	\$ -
cost per 1,000 gallons	\$ 3.50	\$ 3.60	\$ 0.10

RECONNECTION FEES	current	proposed	increase
at customer's request	\$ 50.00	\$ 50.00	\$ -
due to nonpayment	\$ 50.00	\$ 50.00	\$ -

ADVANCE PAYMENT	current	proposed	increase
for water used during	\$ 100.00	\$ 100.00	\$ -
construction (paid with tap fee)	\$ 100.00	\$ 100.00	\$ -

UTILITIES DEPARTMENT EXHIBIT NO. 2

EFFECT OF PROPOSED RATES AND CHARGES ON OPERATING REVENUE

<u>SOURCE OF REVENUE</u>	<u>PRESENT REVENUE</u>	<u>PROPOSED REVENUE</u>	<u>AMOUNT OF INCREASE</u>	<u>PERCENT OF INCREASE</u>
<u>WATER:</u>				
SERVICE REVENUE	\$ 163,143	\$ 197,944	\$ 34,801	21.3%
MISC.REVENUE 1	\$ 336	\$ 336	0	0
TOTAL	\$ 163,479	\$ 198,280	\$ 34,801	21.3%
<u>SEWER:</u>				
SERVICE REVENUE	\$ 110,448	\$ 132,750	\$ 22,302	20.2%
MISC. REVENUE 2	181	181	0	0
TOTAL	\$ 110,629	\$ 132,931	\$ 22,302	20.2%
<u>COMBINED</u>				
SERVICE REVENUE	\$ 273,591	\$ 330,694	\$ 57,103	20.9%
MISC. REVENUE	517	517	0	0
TOTAL	\$ 274,108	\$ 331,211	\$ 57,103	20.8%

MISC. REVENUE 1 IS MADE UP OF 65% OF \$517 LATE CHARGES.

MISC. REVENUE 2 IS MADE UP OF 35% OF \$517 LATE CHARGES.

DOCKET NO. 2002-239-W/S//UTILITIES DEPT//EXHIBIT NO. 3

HARBOR ISLAND UTILITIES, INC

EFFECT OF PROPOSED RATES ON RESIDENTIAL CUSTOMER'S MONTHLY BILL

Rate impact of all residential customers						
Includes condominiums and single family homes						
using an average of 5,000 gallons /month						
		present	proposed	amount of	percent	
		rate	rate	increase	increase	
water		\$29.19	\$36.50	\$7.31	25.0%	
sewer		\$26.00	\$31.25	\$5.25	20.2%	
combined		\$55.19	\$67.75	\$12.56	22.8%	

present water bill: $\$11.69 + (\$3.50 \times 5) = \$11.69 + \$17.50 = \$29.19$

proposed water bill: $\$18.50 + (\$3.60 \times 5) = \$18.50 + \$18.00 = \$36.50$

res. usage 22,015,240

res. bills 4436

avg /bill 4962.8584

round to 5,000 gallons per month avg usage

UTILITIES DEPARTMENT EXHIBIT NO. 4

REVIEW OF SERVICE PROVIDED BY THE COMPANY

On November 4, 2002, personnel from the South Carolina Public Service Commission conducted an audit of the books and an inspection of the water and sewer system of Harbor Island Utilities, Inc. The Company provides service to 390 water customers and 352 sewer customers in its service area in South Carolina.

The Company provides adequate service to its customers.

The following pages contain a summary of the Business Office Compliance Review Report, an analysis of the water audit and an analysis of the water and sewer system owned and operated by the Company.

BUSINESS OFFICE COMPLIANCE REVIEW REPORT

UTILITY: Harbor Island Utilities, Inc. INSPECTOR: W. Richardson

OFFICE: P. O. Box 70042, Lady's Island, SC 29902 DATE: November 4, 2002

COMPANY REPRESENTATIVE: Robert Gross and Claudia McKeown

IN COMPLIANCE YES OR NO*

- yes 1. Are all records and reports available for examination in accordance with Rule R.103-710 and R.103-510?
- yes 2. Are complaint records maintained in accordance with Rule R.103-716 and R.103-516?
- yes 3. Are the utility's rates, its rules and regulations and its up-to-date maps and plans available for public inspection in accordance with Rule R.103-730 and R.103-530?
- yes 4. Are procedures established to assure that every customer making a complaint is made aware that the utility is under the jurisdiction of the South Carolina Public Service Commission and that the customer has the right to register the complaint in accordance with Rule R.103-730 and R.103-530?
- yes 5. Are deposits charged within the limits established by Rule R.103-731 and R.103-531?
- yes 6. Are timely and accurate bills being rendered to customers in accordance with Rule R.103-733 and R.103-532?
- yes 7. Are bill forms in accordance with Rule R.103-732 and R.103-532?
- yes 8. Are adjustments of bills handled in accordance with Rule R.103-733 and R.103-533?
- yes 9. Is the policy for customer denial or discontinuance of service in accordance with Rule R.103-735 and R.103-535?
- yes 10. Are notices sent to customers prior to termination in accordance with Rule R.103-735 and R.103-535?
- none 11. Are notices filed with the Commission of any violation of PSC or DHEC rules which effect service provided to its customers in accordance with rule R.103-714-C and R.103-514-C?

- yes 12. Does the utility have adequate means (Telephone, etc.) whereby each customer can contact the water and/or wastewater utility at all hours in cases of emergency or unscheduled interruptions or service in accordance with Rule R.103-730 and R.103-530?
- yes 13. Are records kept of any condition resulting in any interruption of service affecting its entire system or major division, including a statement of time, duration, and cause of such an interruption in accordance with Rule R.103-714 and R.103-514?
- yes 14. Has the utility advised the Commission, in accordance with Rule R.103-712 and R.103-512 of the name, title, address and telephone number of the person who should be contacted in connection with:
- (a) General management duties?
 - (b) Customer relations (complaints)?
 - (c) Engineering operations?
 - (d) Meter tests and repairs?
 - (e) Emergencies during non-office hours?
- yes 15. Has the Company verified the maps on file with the Commission include all the service area of the Company?
- 390 w
352 s 16. Number of customers the Company has at present. 11.04.02
- yes 17. Does the Company have a current performance bond on file with the Commission? Amount of bond, \$100K-W & \$100K- S

*A "NO" RESPONSE REQUIRES A NOTE IN THE COMMENT SECTION

COMMENTS: 11- there have not been any violations of PSC or DHEC rules that effect service.

**HARBOR ISLAND UTILITIES, INC
DOCKET NO. 2002-239-W/S
WATER AUDIT ANALYSIS**

	GALLONS
water purchased	37,453,000
water sold	-30,801,070
used in chlorinator	-672,640
flushing	-100,000
jetting (1)	-120,000
not billed to customers (2)	-2,328,500
fire dept use (unknown)	

3,430,790 this is 9.16% unaccounted for water.

(1) water is used from fire hydrants to jet piles into the ground for foundations.
based on \$2.50 per 1,000 gallons \$300.00 in revenue would equate to 120,000 gallons.

(2) the Company included 1,000 gallons usage in the base rate. This was not listed
as water sold. Staff would allocate a 50/50 split between the 4,657 water bills so that
2,328,500 gallons of the 4,657,000 gallons should be accounted for.

WATER SYSTEM INSPECTION

UTILITY <u>Harbor Island Utilities, Inc.</u>	INSPECTED BY <u>William Richardson</u>
SYSTEM <u>Harbor Island</u>	DATE INSPECTED <u>11.04.02</u>
	COMPANY REP <u>Robert Gross</u>

TOTAL NUMBER OF WELL SITES 0

NUMBER OF WELLS NOT IN OPERATION _____

REASON FOR INOPERABLE WELLS _____

PUMP HOUSES YES _____ NO _____ NUMBER _____

ELECTRIC WIRING ACCEPTABLE _____ FAULTY _____

EXPOSED PIPING YES _____ NO _____

LOCATION _____

CHLORINATOR YES _____ NO _____

OTHER CHEMICALS YES _____ NO _____

IN USE YES _____ NO _____

STORAGE PRESSURE TANK _____ NON-PRESSURE TANK _____

GROUND LEVEL _____ OVERHEAD _____

SIZE IN GALLONS 500, 000 ground level and 5,000 hydro pneumatic

P.S.I. AT TANK 70

METERS YES ✓ NO _____

FIRE HYDRANTS YES ✓ NO _____

AIR IN LINES YES _____ NO ✓

SAND IN WATER YES _____ NO ✓

CLARITY OF WATER Clear

ODOR No

LEAKS YES _____ NO ✓

LOCATION _____

NEW CONSTRUCTION YES ✓ NO _____

HOUSES YES ✓ NO _____

UTILITY YES _____ NO ✓

NATURE _____

FREQUENCY CHECKED BY OPERATOR Daily

APPROXIMATE NUMBER OF CUSTOMERS 390 CAPACITY OF SYSTEM 625

LOCATION OF UTILITY OFFICE 12-1B Fairfield Road, Lady's Island SC 29907

LOCATION OF SYSTEM Beaufort County

SYSTEM APPROVED BY COMMISSION YES ✓ NO _____ DATE Aug. 1, 1998

IS SUBDIVISION PROVIDED SEWER BY THIS UTILITY? YES ✓ NO _____

BY WHOM? _____

OTHER COMMENTS Company has one booster pump for water service and 2 booster pumps for fire hydrants